

## Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00  
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05  
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-09  
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 PA-01 /133 W  
-----092893 050524Z /10

R 032046Z AUG 78  
FM AMEMBASSY BRASILIA  
TO AMEMBASSY ASUNCION  
INFO SECSTATE WASHDC 8538  
AMCONSUL RIO DE JANEIRO  
AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 6110

E.O. 11652: N/A  
TAGS: ENRG, BR, PA  
SUBJECT: BRAZIL'S REJECTION OF RENOGIATION OF ITAIPU ELECTRICITY  
PRICE

REF: (A) ASUNCION 3052 (B) 77 BRASILIA 10327

1. SUMMARY. THE BRAZILIAN FOREIGN MINISTRY'S QUICK REACTION  
TO DEBERNADI'S CALL FOR A READJUSTMENT  
OF THE ELECTRICITY PRICE THAT PARAGUAY WILL RECEIVE FROM  
THE SALE TO BRAZIL OF ITS SHARE OF THE POWER GENERATED BY ITAIPU  
WAS APPARENTLY SUCCESSFUL ATTEMPT TO SHOOT DOWN A TRAIL  
BALLON. THE GOB PERCEIVED HIS REMARKS AS DESIGNED TO TEST  
BRAZILIAN WILLINGNESS TO MODIFY CERTAIN FINANCIAL CLAUSES  
IN THE ITAIPU AGREEMENT. GOB ALSO WANTED TO PREVENT A  
CONTROVERSY SIMILAR TO THE CYCLE CONVERSION EPISODE WHERE  
PARAGUAY DECLINED TO CONVERT ITS CYCLE FREQUENCY. BRAZILIAN  
PRESS INTERPRETED DEBERNADI'S REMARKS AS PARAGUYAN  
PRESSURE TO FORCE BRAZIL TO FINANCE THE CONSTRUCTION  
OF A HYDROELECTIRC PROJECT ON THE MONDAY RIVER AND  
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TO EXERCISE FLEXIBILITY IN ITS NEGOTIATIONS WITH  
ARGENTINA OVER THE CORPUS HYDROELECTRIC POWER PLANT.  
GOB IS REPORTEDLY SATISFIED WITH DEBERNARDI'S SUBSEQUENT  
EXPLANATION AND GOP'S AFFIRMATIONS THAT IT DOES  
NOT INTEND TO REQUEST MODIFICATIONS IN THE ITAIPU  
AGREEMENT. END SUMMARY.

2. ON JULY 26, BRAZILIAN FOREIGN MINISTRY SPOKESMAN LUIS FELIPE LAMPREIA ANNOUNCED THE GOB WOULD NOT CONSIDER READJUSTING THE PRICE OF ITAIPU ELECTRICITY THAT PARAGUAY WILL SELL TO BRAZIL. THE FOREIGN MINISTRY'S ANNOUNCEMENT CAME SHORTLY AFTER PARAGUAYAN ITAIPU DIRECTOR ENZO DEBERNARDI'S REMARKS ON READJUSTMENT OF THE PRICE (REF A). ACCORDING TO LAMPREIA, THE FOREIGN MINISTRY CONSIDERED DEBERNARDI'S REMARKS "TRIAL BALLONS" DESIGNED TO TEST BRAZILIAN WILLINGNESS TO MODIFY CERTAIN FINANCIAL CLAUSES IN THE ITAIPU AGREEMENT.

3. PRESS ARTICLES OF JULY 27 ARGUES THAT THE GOB REACTED QUICKLY AND FIRMLY TO DEBERNARDI'S REMARKS BECAUSE IT WANTED TO PREVENT A CONTROVERSY SIMILAR TO THE CYCLE CONVERSION EPISODE WHERE PARAGUAY CANCELLED ITS DECISION TO CONVERT ITS CYCLE FREQUENCY (REF B). BY ACTING EXPEDITIOUSLY THE GOB WOULD PRESENT DEBERNARDI'S REMARKS FROM EVENTUALLY BECOMING AN OFFICIAL GOP PROPOSAL. SPOKESMAN LAMPREIA, HOWEVER, REFUSED TO MAKE AN ANALOGY BETWEEN THE CYCLE CONVERSION EPISODE AND DEBERNARDI'S PROCLAMATIONS, ARGUING THAT IN THE CYCLE EPISODE THERE WAS NO DEFINITE AGREEMENT, BUT THE ITAIPU ELECTRICITY PRICE TO BE PAYED BY BRAZIL IS AN ISSUE THAT HAS BEEN NEGOTIATED AND AN AGREEMENT APPROVED AND RATIFIED. ACCORDING TO NEWSPAPER REPORTS, THE FOREIGN MINISTRY DID CONCEDE THAT DEBERNARDI'S REMARKS, LIMITED OFFICIAL USE

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COMING FROM A HIGH LEVEL GOVERNMENT OFFICIAL, COULD BE INTERPRETED AS THE FIRST STEP IN A GOP ATTEMPT TO MODIFY THE ITAIPU AGREEMENT.

4. CITING BRAZILIAN TECHNICIANS IN THE ENERGY SECTOR, O ESTADO DE SAO PAULO (JULY 27) COMMENTED THAT DEBERNARDI'S REMARKS COULD BE INTERPRETED AS PARAGUAYN PRESSURE TO FORCE BRAZIL TO FINANCE THE CONSTRUCTION OF A HYDRO-ELECTRIC PROJECT ON THE MONDAY RIVER. ACCORDING TO ESTADO, PRIOR TO THE GOP DECISION TO CANCEL ITS DECISION TO CONVERT ITS CYCLE FREQUENCY, THE BRAZILIAN GOVERNMENT APPEARED WILLING TO CONTRIBUTE AT LEAST US\$100,000,000 TOWARD THE CONSTRUCTION OF A HYDRO-ELECTRIC PROJECT ON THE MONDAY RIVER. THE GOB COULD JUSTIFY THE EXPENDITURE IF PARAGUAY AGREED TO CONVERT ITS CYCLE FREQUENCY, THEREBY AVOIDING THE PURCHASE OF EXPENSIVE CONVERSION EQUIPMENT. IN SPITE OF GOP'S ARGUMENTS THAT A HYDROELECTRIC PROJECT ON THE MONDAY RIVER WOULD BE NECESSARY TO COMPENSATE FOR LOSS OF OUT-FLOW IN THE PARANA RIVER, THE GOB ABANDONED ITS PROPOSAL TO HELP FINANCE THE PROJECT WHEN THE GOP DECIDED NOT TO UNDERGO A CYCLE CONVERSION. ACCORDING

TO THE NEWSPAPER ARTICLE, THE GOP HAS SINCE PRESSURED THE GOB TO FINANCE THE MONDAY PROJECT; DEBERNARDI'S REMARKS CONSTITUTES ONE MORE FORM OF PRESSURE TO OBTAIN BRAZILIAN AID FOR THE PROJECT.

5. ANOTHER PRESS HYPOTHESIS IS THAT DEBERNARDI'S REMARKS CONSTITUTE A PARAGUYAN TACTIC TO PRESSURE THE BRAZILIAN GOVERNMENT TO EXERCISE FLEXIBILITY IN ITS NEGOTIATIONS WITH ARGENTINA OVER THE CORPUS HYDRO-ELECTRIC POWER PLANT. FONMIN SPOKESMAN LAMPREIA RETORETED THAT DEBERNARDI'S REMARKS HAVE NOT MODIFIED THE BRAZILIAN POSITION IN RELATION TO THE CORPUS PROJECT. OTHER GOB OFFICIALS REPORTEDLY SEE "ARGENTINA'S HAND" IN DEBERNARDI'S REMARKS WHICH LIMITED OFFICIAL USE

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PROMPTED LAMPREIA'S COMMENT.

6. ON JULY 29 THE JORNAL DO BRASIL REPORTED THAT THE NOTE RELEASED TO THE PRESS IN ASUNCION ON JULY 28 HAD BEEN PREPARED BY DEBERNARDI AND REVIEWED BY GENERAL COSTA CAVALCANTI, BRAZILIAN DIRECTOR GENERAL OF "ITAIPU BINACIONAL" AND FOREIGN MINISTER AZEREDO DA SILVEIRA PRIOR TO ITS RELEASE. ACCORDING TO THE PRESS HERE, THE GOB APPEARS SATISFIED WITH DEBERNARDI'S EXPLANATION AND WITH OFFICIAL PARAGUAYAN AFFIRMATIONS THAT THE GOP DOES NOT INTEND TO REQUEST MODIFICATIONS IN THE ITAIPU AGREEMENT. SAYRE

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** NEGOTIATIONS, PRICES, ELECTRIC POWER, HYDROELECTRIC POWER PLANTS  
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**Copy:** SINGLE  
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**Decaption Date:** 01 jan 1960  
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**Enclosure:** n/a  
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**TAGS:** ENRG, BR, PA  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
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20 Mar 2014  
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